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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Delaware Transit Corporation

Dover, Delaware

We have audited the financial statements of the Delaware Transit Corporation (DTC) as of and for the year ended June 30, 2006, and have issued our reports thereon dated October 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered DTC's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect DTC's ability to initiate, record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The Reportable condition is described in the accompanying schedule of findings and responses as item 2006-1.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable conditions described above is not a material weakness.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether DTC's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

We noted certain matters that we reported to management at DTC in a separate letter dated October 12, 2006.

This report is intended solely for the information and use of the Secretary of Transportation, management, Office of the Governor, Attorney General, Comptroller General, Management and Budget, Department of Finance, and the U.S. Department of Transportation and is not intended to be and should not be used by anyone other than these specified parties.

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October 12, 2006

2006-1 - ACCOUNTING FOR CAPITAL ASSETS AND INFRASTRUCTURE

Observation

In fiscal year ended June 30, 2006, a prior period adjustment of $4.4 million was made to reflect the balance of accumulated depreciation in the PeopleSoft Asset Management Module on the financial statements. This was a result of assets being transferred into the Asset Management Module in 2000, 2001 and 2002 with incorrect lives. Manual adjustments were made to the financial statements in prior years, but they did not reflect the entire amount of errors. Upon final analysis and reconciliation by DTC management an adjustment to accumulated depreciation was identified and recorded.

In order to calculate the ending capital asset balances for inclusion in the DTC financial statements, DTC used various departmental maintained spreadsheets and reports from the PeopleSoft system. These reports include: The Net Book Value Report, Cost Activity Report, Retirements and Accumulated Depreciation Reports. In response to audit request a Depreciation Activity Detail Report was also developed.

Recommendation

We recommend that the Depreciation Activity Detail Report that was developed by management be reviewed periodically to insure that the lives assigned to the assets continues to be appropriate, consistent, properly calculated and in agreement with the general ledger.

Management's Response

We will incorporate the review of the Depreciation Activity Detail Report into our closing process.